



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

July 9, 2008

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

Re: House Bill No. 2661 HD2 SD2 CD1

On July 8, 2008, House Bill No. 2661, entitled "A Bill for an Act Relating to Special Purpose Revenue Bonds to Assist Industrial Enterprises" became law without my signature, pursuant to Section 16 of Article III of the State Constitution.

The purpose of this bill is to authorize the issuance of up to \$38 million in special purpose revenue bonds to Hui Mana 'Oam'o for a renewable energy project.

Special purpose revenue bonds are issued by the State Department of Budget and Finance on behalf of private entities who are engaged in a legitimate public purpose. The State Constitution enumerates seven such purposes. These bonds do not count against the indebtedness of the State of Hawaii and the revenues generated by the project are responsible for paying the debt to retire the bonds. Depending upon the nature of the activity, these bonds may qualify for federal and State tax exemptions, thus affording a lower interest rate to the entity who will use the funds.

This bill raises several concerns. First, as indicated by the Attorney General, bonds issued on behalf of Hui Mana 'Oam'o would not likely qualify for a federal tax exemption because these bonds exceed the threshold for a "small issuance" set in the Internal Revenue Code and do not meet the federal large issuance requirement that the utility must have been in operation prior to 1997. Thus, it is unclear whether a significant interest rate advantage will be gained by issuing special purpose revenue bonds, as opposed to a standard corporate borrowing.

Second, the project proposed to be funded using these moneys has only been described in general terms. While I am a strong supporter of renewable energy projects, significantly greater details will need to be provided before the State Department of Budget and Finance can perform the required due diligence that is undertaken prior to the issuance of these bonds.

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For the foregoing reasons, I allowed House Bill No. 2661 to become law as Act 237,
effective July 8, 2008, without my signature.

Sincerely,

A handwritten signature in dark ink, appearing to read "L. Lingle", with a stylized, cursive script.

LINDA LINGLE